

**MINUTES OF THE
EXECUTIVE APPROPRIATIONS COMMITTEE**
Tuesday, May 14, 2013 - 1:00 p.m. - Room 445 State Capitol

Members Present:

Sen. Lyle W. Hillyard, Co-Chair
Rep. Melvin R. Brown, Co-Chair
Sen. Jerry W. Stevenson, Vice Chair
Sen. J. Stuart Adams
Sen. Gene Davis
Sen. Patricia W. Jones
Sen. Peter C. Knudson
President Wayne L. Niederhauser
Sen. Karen Mayne
Sen. Ralph Okerlund
Sen. Luz Robles
Rep. Joel K. Briscoe
Rep. Rebecca Chavez-Houck

Rep. Tim M. Cosgrove
Rep. Gregory H. Hughes
Speaker Rebecca D. Lockhart
Rep. Don L. Ipson
Rep. Jennifer M. Seelig

Members Excused:

Rep. Brad R. Wilson, Vice Chair
Rep. Brad L. Dee

Staff Present:

Mr. Jonathan Ball, Legislative Fiscal Analyst
Mr. Steven Allred, Deputy Director
Ms. Greta Rodebush, Legislative Secretary

Note: A copy of related materials and an audio recording of the meeting can be found at www.le.utah.gov.

1. Call to Order/Approval of Minutes

Co-Chair Brown called the meeting to order at 1:14 p.m.

MOTION: Sen. Hillyard moved to approve the minutes of February 27, 2013, February 28, 2013, and March 13, 2013. The motion passed unanimously with Sen. Mayne, President Niederhauser, Sen. Robles, Speaker Lockhart, Rep. Hughes, and Rep. Seelig absent for the vote.

2 Utah Retirement Systems Liability, Contribution Rates, and Assumed Rate of Return

Mr. Brian Fay, Fiscal Analyst, LFA, informed the committee that the Retirement and Independent Entities Appropriations Subcommittee met jointly with the Retirement and Independent Entities Interim Committee on Wednesday, May 8, 2013 to discuss the financial aspects of retirement and the effects of the Tier II Retirement System. He introduced Mr. Bob Newman.

Mr. Bob Newman, Executive Director, Utah Retirement System (URS), distributed the handout, "State and School Retirement System." He discussed the funding status of the state and school retirement system, estimated vs actual funded ratios, assumed rates of returns on investments, actual vs projected contribution rates, and savings realized through pension reform.

President Niederhauser commented that he is more cautious about what the returns on investments are going to be in the future. He inquired about the reporting changes in GASB, the time line for fully funding the unfunded liabilities, and factoring in the assessment of risks.

Rep. Briscoe asked clarifying questions on the 7.50 percent assumed investment rate of return.

Mr. John Dougall, State Auditor, introduced Mr. David Pulsipher, Director of Performance Audit, and Mr. David Stringfellow, Chief Economist, within the State Auditor's Office.

Mr. Pulsipher gave a brief overview of “A Performance Audit of the Utah Retirement Systems’ (URS) Assumed Investment Rate of Return.” Mr. Pulsipher discussed audit findings that address concerns regarding an optimistic assumed investment rate of return, the need for greater transparency, and the budgetary impact of changing the assumed rate of return.

Mr. Dougall offered some concluding remarks on the benefits of having useful information that lends itself to the discussion and analysis of the state pension system.

Mr. Newman responded to committee questions related to the audit findings. He commented on how the rating agencies view URS’ assessment and estimation processes, the possibility of future increases in the contribution rates, accessibility to URS information and GRAMA requests, and how URS’ information disclosure compares with retirement system practices in other states.

Mr. Newman stated that URS has created a website: www.retirement.utah.gov where the public can view URS’ reports in their entirety.

3. Federal/Non-federal Grants Report

Ms. Jill Flygare, Governor’s Office of Management and Budget (GOMB), presented the Federal/Non-federal Grants Report dated May 14, 2013. In regards to federal grants, there were six new grants, one new supplemental, and three revisions of existing grants requiring legislative action. The Governor’s Office approved twelve new grants and three reapplications/continuations of existing grants.

Regarding non-federal grants, Mr. Flygare reported that there were four new grants requiring legislative action and three new grants approved by the Governor’s Office.

MOTION: Sen. Hillyard moved to approve the federal grants requiring legislative action. The motion passed unanimously with Sen. Mayne, Sen. Robles, and Sen. Stevenson absent for the vote.

MOTION: Sen. Hillyard moved to approve the non-federal grants requiring legislative action. The motion passed unanimously with Sen. Mayne, Sen. Robles, and Sen. Stevenson absent for the vote.

4. Adopt 2013 General Session Revenue Estimates

Dr. Andrea Wilko, Chief Economist, LFA, presented the “May Revenue Estimates, FY 2013 - FY 2014 (in Thousands)” and dated Tuesday, May 14, 2013.

Dr. Wilko explained that the adoption of the May revenue estimates allows the Division of Finance to calculate year-end revenue surpluses for the purpose of making deposits to the Rainy Day Funds. The May revenue estimates are the February estimates adjusted for legislative changes.

Dr. Wilko indicated that corporate income tax represents about 10 percent of Education Fund revenue.

MOTION: Sen. Hillyard moved to approve the “May Revenue Estimates, FY 2013 - FY 2014 (in Thousands)” and dated today, May 14, 2013. The motion passed unanimously with Sen. Mayne, Sen. Robles, and Sen. Stevenson absent for the vote.

5. Five Year Budget and Revenue Projections

Dr. Wilko and Dr. Thomas Young, Economist, LFA, presented the Issue Brief, “Five Year Projections,” a five year outlook of Utah’s cash inflow, cash outflow, financial obligations, debt service, and governmental interdependence. The study was based upon a methodology proposed by the Governmental Accounting Standards Board (GASB).

Dr. Wilko reported that Utah is fiscally sustainable through FY 2017 for all but Transportation related expenditures. Dr. Wilko attributes Transportation’s negative cash flow to the GASB’s methodology that incorporates \$4 billion in bonding as an ongoing expense. Study findings also show that federal contracts and grants, which represent 30.7 percent or \$3.5 million in budgeted revenue, are currently at risk due to federal deficit reduction.

Dr. Young reviewed the five year outlook for cash outflow.

Dr. Wilko concluded her remarks, stating that Utah is on target to meet long-term financial obligations including debt service, retirement, and other post employment benefits.

Staff responded to committee questions on how future bonding for transportation impacts the individual; whether transportation revenues will keep pace with current expenditure trends or do we need to look for other sources of funding; which areas of federal funding are most at risk; and what do future revenue projections look like for public education and transportation excluding bonding.

6. Financial Ready Utah Presentation

Rep. Ken Ivory introduced Mr. Chris Martenson, Founder of Peak Prosperity. Mr. Martenson was a guest speaker at the Financial Ready Utah Spring Forum sponsored by the Utah Association of Certified Public Accountants that morning. He was scheduled to speak at the Federal Funds Review Commission later in the day.

Mr. Martenson spoke on the economy, our monetary system, the exponential rate at which debt and other inputs to the economy have grown, potential unsustainability of exponential systems, and risks going forward.

Committee members asked Mr. Martenson to comment on what can be done on a national and personal level to curb spending, if there is some global interest in protecting the dollar, how food source, water, and air issues impact self-sufficiency, and the importance of gold and silver.

7. Legislative Fiscal Analyst In-depth Budget Review

Mr. Steven Allred, Deputy Director, LFA, explained that Joint Rule 3-2-502 requires the EAC to annually select an agency, institution, or program to be the subject of an in-depth budget review. This year, the LFA recommended an interim study of “off-budget” funds and operations. Mr. Allred explained that even though “off budget” funds receive and expend revenues, they are not included in the state budget. The study will identify each fund or operation, explain the purpose for which it exists, give

a history of revenues and expenditures, and potentially make recommendations for putting a fund or operation on-budget, making statutory changes, or implementing reporting changes.

Mr. Allred stated that if the EAC authorizes the in-depth budget review, the LFA would present the report to the committee prior to the 2014 General Session.

Sen. Robles asked if federal funds would be included in the study. Mr. Ball responded that federal funds would not necessarily be included in the in-depth budget review.

MOTION: Sen. Hillyard moved to authorize the Legislative Fiscal Analyst to study the “off-budget” funds and operations. The motion passed unanimously with Sen. Adams, President Niederhauser, and Rep. Cosgrove absent for the vote.

8. Governor’s Office of Management and Budget In-depth Budget Review

Mr. Allred explained that UCA 63J-1-701 states that the Legislative Management Committee, upon recommendation of an appropriations subcommittee, may request of the governor, an in-depth budget review of any state department, agency, institution, or program. In consultation with the Governor’s Office of Management and Budget (GOMB), LFA recommended that GOMB do an in-depth budget review of the Department of Veterans’ Affairs.

Mr. Allred indicated that if the EAC approves the recommendation, the LFA would draft a letter to the Legislative Management Committee and ask them to make that request of the Governor’s Office.

MOTION: Sen. Hillyard moved to authorize the Legislative Fiscal Analyst to inform the Legislative Management Committee that the Executive Appropriations Committee approves the Governor’s Office of Management and Budget in-depth budget review of the Department of Veterans’ Affairs . The motion passed unanimously with President Niederhauser absent for the vote.

9. 2013 General Session Budget Highlights

Mr. Ball announced that the LFA had posted “The FY 2014 Appropriations Report” on the front page of the Legislature’s website. He demonstrated how to view and use some of the report features, including a search box. The overall report structure included a statewide summary, comprehensive appropriations tables, textual overviews of each appropriations subcommittee, a set of tables that detail subcommittee budget actions, and a set of tables detailing how the Legislature funded agency line item budgets through specific bills during the 2013 General Session.

10. Other Business

MOTION: Sen. Hillyard moved to adjourn. The motion passed unanimously with President Niederhauser absent for the vote.

Co-Chair Brown adjourned the meeting at 3:15 p.m.